

FERTILIZER MARKETS - PRESENT AND FUTURE

John Petruic
President, Western Canada Fertilizer Association

The lead-off spot after lunch is not the best place to appear on a program. It's almost like being first up to bat after the other team just scored seven runs.

We spent the morning learning about some important advances in agronomy. In my estimation, these advances are the mere tip of the iceberg as far as agriculture research is concerned. And it is obvious that as such improvements evolve, the need for more efficient and more productive fertilizer manufacturing operations will continue.

The members of our association are ready for that. There are some challenges ahead of us during the next year or more that are still fairly perplexing, and we know that much of our future direction is not completely under our own control at the moment. However, we do feel confident that the business of agriculture in Canada, and particularly the fertilizer aspect, will continue to grow and prosper, although probably not without a few headaches along the way.

It is hard for me to imagine any industry that isn't confronted with a few headaches in its marketing plans. Not everyone can market savings bonds at 19 1/4 percent interest, or 30 cent postage stamps, and have no competition.

One of our biggest problems, at the moment, will come as no surprise to anyone in any business today. High interest rates are causing severe setbacks to expansion plans. Inventories are far too costly to maintain at high levels. And this is evident in the phosphate sector in the United States and Western Canada.

Coupled with the high cost of money, a number of conditions are conspiring to cause a persistent excess of phosphate inventories and a marked slump in sales.

One condition is the result of a U.S. embargo on the shipment to Russia of commodities such as crop fertilizers. This political move was a response to the invasion of Afghanistan and it has essentially removed a major market from existence.

The U.S. dollar, as some of us know if we have been South lately, is still gaining strength in relation to many currencies, including our own.

The effect of this monetary strength is that countries that would normally import phosphate and other commodities are finding this procedure too expensive. They cannot incorporate the higher costs of fertilizers into the price of crops already beyond the grasp of many buyers.

Money, again, is causing many farmers at home and abroad to delay the purchase of phosphate and other essential products until the last minute. Interest charged against the money used to buy fertilizer is too burdensome to carry any longer than necessary.

So, while it is fully expected that traffic will test all the limits of transportation in the spring, when heavy ordering takes place, stockpiles of phosphate have been building up in the United States over the past year.

And here in Canada, the spill-over from these conditions has had its effect. Canadian fertilizer manufacturers have experienced their own build-up of phosphate. Measures to control and reduce this high inventory caused some companies uncomfortable moments when they made the decision to sell across the border at less than the Canadian going price. Alternatives to this were less palatable, in the opinion of those companies involved.

But we have all been touched by the high interest-high cost times we live in, and there is no reason to dwell on them. I'm sorry if the phosphate picture, which I have just sketched, gives you the feeling that the fertilizer industry is in a gloom and doom frame of mind. I assure you, we are not. We are not completely happy ... but then, who is?

Some of the positive things we have to admit, and for which we are happy to say we are ready, are much more pleasant to discuss.

We are looking at an increase in world consumption of nutrients in 1982 of something like 5 percent, to more than 124 million tons. This gives us cause to smile, because we know our current phosphate and nitrogen production facilities can handle that. Canadian consumption of commercial fertilizers rose by close to 4 percent last year, and we expect a similar increase this year, all other things being equal.

These anticipated growth figures are obviously a good sign for us. But how about the negative side?

Well, the first thing we have to look at, for 1982 and beyond, is the cost of producing fertilizers. Retail prices are going to rise.

The increase will probably not be as great as that

experienced last year, due to oversupply situations and what could be an inflation-produced levelling of demand. It is expected, however, that price adjustments could be in the nature of 6 to 7 percent. It will be extremely difficult for anyone to remain in business without such an increase.

The price increases expected are the part of our future direction I mentioned in the beginning as not being fully under our own control. Political influences have a tremendous impact. Who would have thought, a year ago, that we would be facing the present results of the National Energy Policy?

Ten years ago, fertilizer manufacturers were paying 30 cents per thousand cubic feet of natural gas. Today they are paying \$3.24 per 1000, and by 1985 the price will be \$6.37. Now that's one hefty increase in the cost of any raw product, regardless of the influencing factors. And it really doesn't matter if natural gas is being measured in Gigajoules or cubic feet; the result is the same on the pricing of fertilizer.

An increase of 10 cents per thousand cubic feet, at the moment, increases the cost of ammonia production by nearly \$4.00 per tonne.

In the U.S., the situation is parallel. Decontrol of natural gas pricing in interstate marketing by 1985 will cause the price of natural gas to industrial users to rise to about \$6.00 per 1000 cubic feet.

Let's examine a practical example of the effect of these huge increases.

The cost of natural gas needed to produce one tonne of ammonia has risen from \$13.00 in 1970 to \$75.00 in 1980, and by 1985 the cost will be in excess of \$220.00. And the cost of natural gas itself is only about 65 percent of the total cost of ammonia production.

You can see where this route is forcing us. What are we doing about it?

Well, to begin with, we have our current record as leaders in the conservation of natural resources. Canadian fertilizer manufacturers, during the past 2 years, have managed to reduce their consumption of natural gas ... through new production techniques and better controls ... by about 17 percent. We have accepted the challenge of reducing consumption by a total of 31 percent by 1985.

Even so, the price of ammonia and nitrogen fertilizers will continue to rise uncomfortably. And it doesn't end here. The unit cost of mining phosphate rock has increased

fourfold during the past decade. It is expected to rise at least as far and as fast in the 1980s because of the higher capital costs of opening new mines.

There are some bright spots in the fertilizer picture, however, and one of them is potash. Here, Canada is in a very good position. At present, we produce more than 25 percent of the world's potash and according to the president of the Potash Corporation of America, by 1990 we will be producing over 34 percent. Of the 9.5 million tonnes produced in North American last year, 7.3 million tonnes were Canadian. That production will double by 1990. In fact, projections show that Canada will produce 9.5 million tonnes in 1982, equal to the whole North American production last year. The United States will import over 5.6 million tonnes from us this year, if present figures prove true. And one of our largest producers is lining up extensive markets beyond North America to take care of increasing production not consumed here. (PCS)

The potash export market is looking extremely good. Now if we can only keep production costs, shipping costs, etcetera down and get grain sales and prices up ... All in all, the fertilizer market at present is keeping everyone guessing. Most of us feel fairly confident, sort of a "cautious optimism," if I may borrow a quote from the political arena. And I guess the reason we are not too buoyant about today's situation has a lot to do with the bits of good-news/bad-news I'll close off with.

World food demand is growing constantly. That's good news. According to a study by Chase Econometrics, grain production will have to grow at a rate of about 45 million tonnes per year during this decade to meet the minimum international demand. Canada's share of this demand will require us to export 36 million tonnes by 1990. To do this, we will have to grow in excess of 50 million tonnes of grain and grain products. Over the past five years, we have averaged about 36 million tonnes.

We are fairly certain we can accomplish this goal. As far back as the 1980 Production Symposium sponsored by the Wheat Board, the consensus was that it is possible to expand Canadian production by over 40 percent, or 16 million tonnes, by 1990. Increased fertilizer application was a key factor in this thinking, and the 1980 report on our industry's capability to supply future needs was quite positive. It still is.

But the bad news side of this scenario is the ugly head of inflation. We seem to be caught up in a great spiral. Pricing may well be a huge impediment to increased production.

Certainly, the market price of grains is not what it should be. The importing nations are increasingly hard-pressed to pay current prices, and we know their needs are going to grow at an ever-increasing rate while their ability to pay is declining. So how economics will ultimately affect production is a big question.

Following along the statistics I just cited, is the expanded export market potential. There will be good import customers whose economies are not in dire straits, and in fact, may be improving. I am thinking of Near Eastern and South American countries where we know grain markets are expanding. Indications are that their demands will grow throughout this decade and we will have a good share of that.

We also project good increases in our fertilizer sales to some of these countries. One United Nations study projects that world demand for fertilizer for the next 4 or 5 years will grow at annual compound rates of 4.4 percent for nitrogen, 4.4 percent for phosphate, and 5.3 percent for potash.

The bad news of this, however, concerns shipping problems, costs, and competition. It is difficult, and very expensive, to get all our products out of the country to the import nations. The future, with increases in mind, is bound to be worse unless some huge improvements are made in our rail system. The railways loudly proclaim their need for increased revenue in order to improve their facilities. We won't go into the Crow Rate question, but certainly whatever the outcome is, it will further affect our ability to compete for these lucrative world markets in fertilizer.

We are proud of the great strides our Canadian fertilizer manufacturers have made, and continue to make, in production methods and product refinements. We rank among the best in the world, and give leadership in some fronts. That is really good news. The bad news is that we are so efficient we risk the problem of over-production and inventory loads which tax facilities and the financial ability to carry them. And, on top of this, each time we develop improved production techniques, another uncontrollable tax increase, or raw product cost increase, or labour settlement, or energy cost increase gnaws away at the once positive results of our efforts. We have to increase our selling prices and lose some of the gains we were striving for in our income picture.

Good news ... All predictions are that farmers, intent on increasing their production of grain to bolster their incomes and at least catch up with inflation, will need more fertilizer.

Bad news ... They will have to spend more on their fertilizer and their seed, and their equipment, and their

shipping costs, and they will appear to be standing still again.

Good news ... We have had lots of snow and good moisture levels, so our soil looks like it will get a break this Spring. Farmers will be able to take full advantage of these conditions, plant more crops, need more fertilizer, and we will be there to help them. Bad news ... World grain prices are down. Shipping is still a big headache.

So, in a nutshell, from the fertilizer producers' point of view, conditions for slight improvements in our immediate markets and somewhat larger improvements a bit further down the road, give us some reason to be happy. The uncertainty of so many elements which are, as I said in the beginning, beyond our control, give us some reason to be sad.

We can make more fertilizer, and better fertilizer, but the question is: Can the farmers afford to buy it?

The answer to that seems to be how many of them will be able to afford it.

As production costs rise, farmers will naturally concentrate on those crops that provide the most return for their investment. But, in order to increase their production, they will have to buy more chemicals, and they will need more seed, and obviously, then, they will need more fertilizer as well. It seems to come full circle.

Thank you for your interest in fertilizer markets. It has been a pleasure to participate in your workshop.